

House Study Bill 104 - Introduced

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON SANDS)

A BILL FOR

1 An Act making changes relating to the administration of the
2 tax and related laws by updating the Code references to
3 the Internal Revenue Code and including effective date and
4 retroactive applicability provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

INTERNAL REVENUE CODE REFERENCES

Section 1. Section 422.3, subsection 5, Code 2011, is amended to read as follows:

5. "*Internal Revenue Code*" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, ~~2008~~ 2011.

Sec. 2. Section 422.7, subsection 29A, Code 2011, is amended by striking the subsection.

Sec. 3. Section 422.9, subsection 2, paragraph i, Code 2011, is amended to read as follows:

i. The deduction for state sales and use taxes is allowable only if the taxpayer elected to deduct the state sales and use taxes in lieu of state income taxes under section 164 of the Internal Revenue Code. A deduction for state sales and use taxes is not allowed if the taxpayer has taken the deduction for state income taxes or claimed the standard deduction under section 63 of the Internal Revenue Code. This paragraph applies to taxable years beginning after December 31, 2003, and before January 1, ~~2006~~ 2008, and to taxable years beginning after December 31, 2009, and before January 1, 2012.

Sec. 4. Section 422.32, subsection 7, Code 2011, is amended to read as follows:

7. "*Internal Revenue Code*" means the Internal Revenue Code of 1954, prior to the date of its redesignation as the Internal Revenue Code of 1986 by the Tax Reform Act of 1986, or means the Internal Revenue Code of 1986 as amended to and including January 1, ~~2008~~ 2011.

Sec. 5. EFFECTIVE UPON ENACTMENT. This division of this Act, being deemed of immediate importance, takes effect upon enactment.

Sec. 6. RETROACTIVE APPLICABILITY. The following provision or provisions of this division of this Act apply retroactively

1 to January 1, 2010, for tax years beginning on or after that
2 date:

3 1. The section of this Act amending section 422.3.

4 2. The section of this Act amending section 422.32.

5 Sec. 7. RETROACTIVE APPLICABILITY. The following provision
6 or provisions of this division of this Act apply retroactively
7 to January 1, 2011, for tax years beginning on or after that
8 date:

9 1. The section of this Act amending section 422.7,
10 subsection 29A.

11 Sec. 8. RETROACTIVE APPLICABILITY. The following provision
12 or provisions of this division of this Act apply retroactively
13 to tax years beginning on or after January 1, 2004, but before
14 January 1, 2008, and to tax years beginning on or after January
15 1, 2010, but before January 1, 2012:

16 1. The section of this Act amending section 422.9.

17 DIVISION II

18 RESEARCH ACTIVITIES CREDIT

19 Sec. 9. Section 15.335, subsection 4, Code 2011, is amended
20 to read as follows:

21 4. *a.* In lieu of the credit amount computed in subsection
22 2, an eligible business may elect to compute the credit amount
23 for qualified research expenses incurred in this state in a
24 manner consistent with the alternative ~~incremental~~ simplified
25 credit described in section ~~41(c)(4)~~ 41(c)(5) of the Internal
26 Revenue Code. The taxpayer may make this election regardless
27 of the method used for the taxpayer's federal income tax. The
28 election made under this paragraph is for the tax year and the
29 taxpayer may use another or the same method for any subsequent
30 year.

31 *b.* For purposes of the alternate credit computation
32 method in paragraph "a", the credit percentages applicable to
33 qualified research expenses described in ~~clauses (i), (ii),~~
34 ~~and (iii) of section 41(c)(4)(A)~~ 41(c)(5)(A) and clause (ii)
35 of section 41(c)(5)(B) of the Internal Revenue Code are as

1 follows:

2 (1) In the case of an eligible business whose gross revenues
3 do not exceed twenty million dollars per year, the credit
4 percentages are ~~two and fifty-four hundredths percent, three~~
5 ~~and thirty-eight hundredths percent, and four and twenty-three~~
6 ~~hundredths~~ seven percent and three percent, respectively.

7 (2) In the case of an eligible business whose gross revenues
8 exceed twenty million dollars per year, the credit percentages
9 are ~~seventy-six hundredths percent, one and two hundredths~~
10 ~~percent, and one and twenty-seven hundredths~~ two and one-tenth
11 percent and nine-tenths percent, respectively.

12 Sec. 10. Section 15.335, subsection 7, Code 2011, is amended
13 to read as follows:

14 7. a. For purposes of this section, "*base amount*", "*basic*
15 *research payment*", and "*qualified research expense*" mean the
16 same as defined for the federal credit for increasing research
17 activities under section 41 of the Internal Revenue Code,
18 except that for the alternative ~~incremental~~ simplified credit
19 such amounts are for research conducted within this state.

20 b. For purposes of this section, "*Internal Revenue Code*"
21 means the Internal Revenue Code in effect on January 1, 2009
22 2011.

23 Sec. 11. Section 15A.9, subsection 8, paragraphs b, c, and
24 e, Code 2011, are amended to read as follows:

25 b. In lieu of the credit amount computed in paragraph "a",
26 subparagraph (1), subparagraph division (a), a business may
27 elect to compute the credit amount for qualified research
28 expenses incurred in this state within the zone in a manner
29 consistent with the alternative ~~incremental~~ simplified credit
30 described in section ~~41(c)(4)~~ 41(c)(5) of the Internal Revenue
31 Code. The taxpayer may make this election regardless of
32 the method used for the taxpayer's federal income tax. The
33 election made under this paragraph is for the tax year and the
34 taxpayer may use another or the same method for any subsequent
35 year.

1 c. For purposes of the alternate credit computation
2 method in paragraph "b", the credit percentages applicable to
3 qualified research expenses described in ~~clauses (i), (ii), and~~
4 ~~(iii) of section 41(c)(4)(A)~~ 41(c)(5)(A) and clause (ii) of
5 section 41(c)(5)(B) of the Internal Revenue Code are ~~three and~~
6 ~~thirty hundredths percent, four and forty hundredths percent,~~
7 ~~and five and fifty hundredths percent, respectively~~ as follows:
8 (1) In the case of an eligible business whose gross revenues
9 do not exceed twenty million dollars per year, the credit
10 percentages are seven percent and three percent, respectively.
11 (2) In the case of an eligible business whose gross revenues
12 exceed twenty million dollars per year, the credit percentages
13 are two and one-tenths percent and nine-tenths percent,
14 respectively.
15 e. (1) For the purposes of this subsection, "*base amount*",
16 "*basic research payment*", and "*qualified research expense*" mean
17 the same as defined for the federal credit for increasing
18 research activities under section 41 of the Internal Revenue
19 Code, except that for the alternative ~~incremental~~ simplified
20 credit such amounts are for research conducted within this
21 state within the zone.
22 (2) For purposes of this subsection, "*Internal Revenue Code*"
23 means the Internal Revenue Code in effect on January 1, 2009
24 2011.
25 Sec. 12. Section 422.10, subsection 1, paragraphs b and c,
26 Code 2011, are amended to read as follows:
27 b. In lieu of the credit amount computed in paragraph "a",
28 subparagraph (1), subparagraph division (a), a taxpayer may
29 elect to compute the credit amount for qualified research
30 expenses incurred in this state in a manner consistent with the
31 alternative ~~incremental~~ simplified credit described in section
32 ~~41(c)(4)~~ 41(c)(5) of the Internal Revenue Code. The taxpayer
33 may make this election regardless of the method used for the
34 taxpayer's federal income tax. The election made under this
35 paragraph is for the tax year and the taxpayer may use another

1 or the same method for any subsequent year.

2 *c.* For purposes of the alternate credit computation
3 method in paragraph "b", the credit percentages applicable
4 to qualified research expenses described in ~~clauses (i),~~
5 ~~(ii), and (iii) of section 41(c)(4)(A)~~ 41(c)(5)(A) and clause
6 (ii) of section 41(c)(5)(B) of the Internal Revenue Code
7 ~~are one and sixty-five hundredths percent, two and twenty~~
8 ~~hundredths percent, and two and seventy-five hundredths~~ four
9 and fifty-five hundredths percent and one and ninety-five
10 hundredths percent, respectively.

11 Sec. 13. Section 422.10, subsection 3, Code 2011, is amended
12 to read as follows:

13 3. *a.* For purposes of this section, "*base amount*", "*basic*
14 *research payment*", and "*qualified research expense*" mean the
15 same as defined for the federal credit for increasing research
16 activities under section 41 of the Internal Revenue Code,
17 except that for the alternative ~~incremental~~ simplified credit
18 such amounts are for research conducted within this state.

19 *b.* For purposes of this section, "*Internal Revenue Code*"
20 means the Internal Revenue Code in effect on January 1, 2009
21 2011.

22 Sec. 14. Section 422.33, subsection 5, paragraphs b, c, and
23 d, Code 2011, are amended to read as follows:

24 *b.* In lieu of the credit amount computed in paragraph
25 "*a*", subparagraph (1), a corporation may elect to compute the
26 credit amount for qualified research expenses incurred in this
27 state in a manner consistent with the alternative ~~incremental~~
28 simplified credit described in section ~~41(c)(4)~~ 41(c)(5) of the
29 Internal Revenue Code. The taxpayer may make this election
30 regardless of the method used for the taxpayer's federal income
31 tax. The election made under this paragraph is for the tax
32 year and the taxpayer may use another or the same method for
33 any subsequent year.

34 *c.* For purposes of the alternate credit computation
35 method in paragraph "b", the credit percentages applicable

1 to qualified research expenses described in ~~clauses (i),~~
2 ~~(ii), and (iii) of section 41(c)(4)(A)~~ 41(c)(5)(A) and clause
3 (ii) of section 41(c)(5)(B) of the Internal Revenue Code
4 ~~are one and sixty-five hundredths percent, two and twenty~~
5 ~~hundredths percent, and two and seventy-five hundredths~~ four
6 and fifty-five hundredths percent and one and ninety-five
7 hundredths percent, respectively.

8 d. (1) For purposes of this subsection, "*base amount*",
9 "*basic research payment*", and "*qualified research expense*" mean
10 the same as defined for the federal credit for increasing
11 research activities under section 41 of the Internal Revenue
12 Code, except that for the alternative ~~incremental~~ simplified
13 credit such amounts are for research conducted within this
14 state.

15 (2) For purposes of this subsection, "*Internal Revenue Code*"
16 means the Internal Revenue Code in effect on January 1, 2009
17 2011.

18 Sec. 15. EFFECTIVE UPON ENACTMENT. This division of this
19 Act, being deemed of immediate importance, takes effect upon
20 enactment.

21 Sec. 16. RETROACTIVE APPLICABILITY. The following
22 provision or provisions of this division of this Act apply
23 retroactively to July 1, 2010, for tax credits awarded on or
24 after that date:

25 1. The section of this Act amending section 15.335,
26 subsection 4.

27 2. The section of this Act amending section 15A.9.

28 Sec. 17. RETROACTIVE APPLICABILITY. The following
29 provision or provisions of this division of this Act apply
30 retroactively to January 1, 2010, for tax years beginning on
31 or after that date:

32 1. The section of this Act amending section 15.335,
33 subsection 7.

34 2. The section of this Act amending section 422.10,
35 subsection 1.

1 3. The section of this Act amending section 422.10,
2 subsection 3.

3 4. The section of this Act amending section 422.33.

4 EXPLANATION

5 This bill updates Iowa Code references to the Internal
6 Revenue Code and provides for changes to the Iowa research
7 activities credit provisions.

8 Division I of the bill updates references in Code sections
9 422.3 and 422.32 to the Internal Revenue Code, making certain
10 federal income tax revisions enacted by Congress in 2008,
11 2009, and 2010 applicable for purposes of the corporate and
12 individual income taxes and the franchise tax. These revisions
13 only apply to tax years beginning on or after January 1, 2010,
14 and do not include tax years beginning after December 31, 2007,
15 and before January 1, 2010.

16 The division strikes Code section 422.7, subsection 29A,
17 which provided an exclusion from income of the value of health
18 care coverage of a nonqualified tax dependent up to the age
19 of 25. The federal Patient Protection and Affordable Care
20 Act, Pub. L. No. 111-148, provides for the exclusion from
21 income of the value of health care coverage of a nonqualified
22 tax dependent up to the age of 27, effective March 30, 2010.
23 Because the bill now couples Iowa with the Internal Revenue
24 Code with regard to this provision, Code section 422.7,
25 subsection 29A, is no longer necessary for tax years beginning
26 on or after January 1, 2011. This change applies retroactively
27 to that date.

28 Currently, in certain circumstances, Code section
29 422.9(2)(i) provides individuals a deduction from net income
30 (also known as a "below-the-line" deduction) for state sales
31 and use taxes in lieu of a deduction for income taxes. This
32 deduction was only available for taxable years beginning
33 after December 31, 2003, and before January 1, 2006. The
34 division extends this deduction to tax years beginning after
35 December 31, 2003, and before January 1, 2008, and to tax years

1 beginning after December 31, 2009, and before January 1, 2012.

2 Division II of the bill amends certain Code sections
3 relating to the state research activities tax credit for
4 individuals, corporations, corporations in economic development
5 areas, and corporations in quality jobs enterprise zones. The
6 division updates Iowa Code references to the Internal Revenue
7 Code for purposes of coupling with changes to the federal
8 research activities tax credit.

9 The division also makes certain changes relating to the
10 alternative incremental research tax credit. Because this
11 tax credit was repealed for federal tax purposes, the bill
12 removes references to it from the Iowa Code and replaces them
13 with an alternative simplified research tax credit for Iowa
14 tax purposes based upon the new federal alternative simplified
15 credit. The amendments to Code section 15.335, subsection
16 4, and Code section 15A.9 relate to this change and apply
17 retroactively to July 1, 2010, for tax credits awarded on or
18 after that date.

19 The division also makes certain changes in the calculation
20 of the additional research activities credit that depend on
21 whether an eligible business has \$20 million or more in gross
22 revenues. These changes only apply to tax years beginning
23 on or after January 1, 2010, and do not include tax years
24 beginning after December 31, 2008, and before January 1, 2010.

25 Both divisions of the bill take effect upon enactment.